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MENTAL HEALTH SERVICES ACT HOUSING PROGRAM

1.0 Introduction

The State Department of Mental Health (DMH) and the California Housing Finance Agency (CalHFA) are pleased to announce a new housing program under which up to \$75 million in Mental Health Services Act (MHSA) funds will be allocated each year to finance the capital costs associated with development, acquisition, construction and/or rehabilitation of permanent supporting housing for individuals with mental illness and their families, especially including homeless individuals with mental illness and their families. The MHSA Housing Program will also make available an additional \$40 million per year in operating subsidies. Eight percent of both capital funds and operating subsidies will be set aside for small counties to ensure that the program addresses their unique needs.

Executive Order S-07-06, signed by the Governor on May 12, 2006, mandated development of the MHSA Housing Program, with the stated goal of creating 10,000 additional units of permanent supportive housing for this population. The program will be jointly administered by DMH and CalHFA, with the advice and assistance of an Implementation Working Group (see Section 3.0). DMH and CalHFA have worked closely with the MHSA Housing Program Work Group over a period of several months to develop the technical process for applying for the MHSA funds that have been set aside for the program. The work group includes representatives of the California Mental Health Directors Association (CMHDA), the Governor's Office, the Department of Housing and Community Development (HCD), the Tax Credit Allocation Committee (TCAC), the Corporation for Supportive Housing (CSH) and Housing California, as well as several housing developers.

Funds provided under this program must serve the target population as specified in the Executive Order and defined in further detail below. Capital funds may be used for either Rental Housing Developments or Shared Housing Developments. For Rental Housing Developments, applicants will also be required to obtain capital funds from a range of programs administered by other agencies; however, for Shared Housing Developments, funds from this new program may be used to cover all capital costs. No match is required for operating subsidy funds.

The MHSA asks the State of California to transform the way in which it has delivered mental health services to individuals with serious mental illness. Over the past decade or more, this transformation had already begun through the implementation of several pilot programs, each with the goal of moving beyond the mental health clinic setting to offering a much wider array of services and supports to consumers in community settings, enhancing their recovery efforts and their opportunities for independent living.

The MHSA Housing Program embodies both the individual and system transformational goals of the MHSA through a unique collaboration among government agencies at the local and State level. The partners in this system collaboration include CalHFA/HCD, with their housing and financial expertise; DMH, with responsibility for overseeing the mental health system and ensuring that consumers have access to an appropriate array

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of services and supports; the California Mental Health Planning Council, which serves as an advisor to DMH; and County Mental Health Departments, which have ultimate responsibility for the design and delivery of mental health services and supports throughout the State. Through this collaboration, the MHSA Housing Program will continue to transform the mental health system, offering consumers housing and supportive services that will enable them to live more independently in our communities.

2.0 Project Requirements

Projects must meet the following requirements in order to be considered for funding under this program.

2.1 MHSA Community Services and Supports Plan

In order for a project to be eligible for MHSA Housing Program funding, it must be consistent with the priorities identified in the Community Services and Supports (CSS) Plan for the county in which the project will be located. This requirement is designed to foster the goal of establishing and strengthening partnerships at the local/county level, resulting in project development that reflects local priorities while expanding safe, affordable housing options for individuals with serious mental illness receiving services through the MHSA.

2.2 Target Population

The State of California recognizes that there is currently, and will continue to be for the foreseeable future, inadequate funding to provide permanent supportive housing for all those with serious mental illness who need it. The MHSA Housing Program is primarily intended to provide funding to create permanent supportive housing and services for individuals with serious mental illness who are homeless. Secondly, and in keeping with the values of the MHSA, the State believes that individuals should not have to 'fail first' and become homeless in order to become eligible for supportive housing; rather, individuals identified as "at risk of homelessness" are eligible for the housing and supports available under this program.

The target population is defined as low-income adults, older adults, or transition-age youth with serious mental illness who at the time of assessment for housing services meet the criteria for MHSA Community Services and Support (CSS) services in their county of residence and are homeless or at risk for homelessness, as defined below. The County Mental Health Department, or its designee, will certify the target population eligibility of individuals and/or families. Funding applicants are encouraged to restrict MHSA units to MHSA target population households earning 30 percent or less of the county median income (as adjusted by family size), but must restrict these units to target population households earning 50 percent or less of county median income. Since the target population is low-income, funding applicants are encouraged to set rent limits at 30 percent of 30 percent or less of county median income. Occupancy of each "bedroom" unit in a Shared Housing Development must be restricted to a single adult who is a member of the target population and whose income is 50 percent of less of county median income for a studio unit. "Bedroom" unit rents in these developments must be restricted to 30 percent of 50 percent of county median income for a studio unit.

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MHSA Housing Program projects must offer permanent supportive housing to the target population. Supportive housing means housing with no limit on length of stay that is occupied by the target population and that is linked to on-site or off-site services. These services must help the tenant to retain the housing, support recovery and resiliency, and maximize the ability to live and work in the community.

For the purposes of this program, the following definitions and criteria apply:

1. Adults or Older Adults means adults with serious mental illness as defined in Welfare and Institutions Code Section 5600.3 (b) (1).
2. “Homeless” means living on the streets, or lacking a fixed, regular, and adequate night-time residence. (This includes shelters, motels and living situations in which the individual has no tenant rights.)
3. Individuals who are “at risk of homelessness” include:
 - Transition-Age Youth exiting foster care or juvenile hall
 - Individuals discharged from institutional settings including:
 - Hospitals, including acute psychiatric hospitals, psychiatric health facilities (PHF), skilled nursing facilities (SNF) with a certified special treatment program for the mentally disordered (STP), and mental health rehabilitation centers (MHRC)
 - Crisis and transitional residential settings
 - Individuals released from local city or county jails
 - Individuals temporarily placed in Residential Care Facilities upon discharge from one of the institutional settings cited above
 - Individuals who have been assessed and are receiving services at the County Mental Health Department and who have been deemed to be at imminent risk of homelessness, as certified by the County Mental Health Director

2.3 Housing Options

The types of permanent supportive housing that may receive funding under the MHSA Housing Program include:

- Apartments (including duplexes, triplexes and four-plexes)
- Single-room occupancy (SRO) residences
- Single-family homes and condominiums

These housing types fall into one of two categories of housing developments that may receive program funding—Rental Housing Developments and Shared Housing Developments. Each of these development categories is described in detail in the following paragraphs.

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Rental Housing Developments are apartment buildings that include five or more separate apartment units. Rental Housing Developments include both general occupancy buildings and special occupancy buildings. Special occupancy buildings include both senior housing and housing for transition-age youth as permitted by law. All units, including SRO units, must include, at a minimum, a sleeping area, a kitchen area and a bathroom, in order to provide a dignified housing situation for the residents. While this may exclude existing SROs that cannot be reconfigured to include bathrooms and/or kitchen areas, in those localities that do not permit a reduction in the number of units, there are other funds available for the rehabilitation of these SRO buildings, including Proposition 1C bond funds, low-income housing tax credits and local funds..

In addition, at least 10 percent of the units, but no fewer than 5 units per building, must be set aside for members of the target population. However, Rental Housing Developments smaller than five units may be considered on an exception basis. In this case, however, all of the units in the building must be set aside for the target population. Rental Housing Developments are restricted to households with an adult who meets the target population definition. For purposes of this program, an adult is defined as an individual who is either at least 18 years of age or a transition-age youth who has been emancipated by court order.

A Shared Housing unit is one that is shared by two or more unrelated adults, each of whom is a member of the MHSA target population. Shared Housing Developments consist of two- to four-unit buildings and include duplexes, triplexes and four-plexes. All units in the building must be restricted for use as Shared Housing, regardless of the size or configuration of the unit. Larger buildings may be permitted on an exception basis. Single-family homes and condominiums also qualify as Shared Housing Developments, provided they have at least two bedrooms. To qualify for funding under this program, the Shared Housing Development must restrict occupancy to members of the target population. Each adult tenant must have his/her own secure, lockable bedroom and each must have a tenant lease agreement, with responsibility for paying rent for the unit.

The project may be either a:

- **Single Site Development** ---Building in which all units are dedicated to housing the target population, or a
- **“Mixed Use” Development**—Project has set aside a specific number of units within a building or complex to house the target population.

2.4 Eligible Applicants/Developers

An application for MHSA Housing Program funding may be submitted only by a County Mental Health Department. However, funds may be distributed only to a qualified non-profit housing development organization in the form of a loan (and in some cases, as operating subsidies). Therefore, the application must be prepared and signed by both the county and the developer, and will serve as the loan (and operating subsidy) application from the developer, as the ultimate borrower. In signing and submitting the application, the county will signify that it approves the use of its allotted MHSA funds for the project described in the application, and that it commits to providing supportive services to the target population for the full term of the MHSA loan.

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Qualified non-profit housing development organizations are:

- (1) Developers with a track record of successful housing development and a history of serving the target population;
- (2) Developers with a track record of successful housing development but with no history of serving the target population, but with a strong contract/Memorandum of Understanding with a qualified service provider and property manager, and the assistance of qualified consultants with a history of successfully working with developer to house the target population; or
- (3) A qualified services provider with a joint venture developer partner with a history of successful development who has entered into a strong contract/Memorandum of Understanding with a qualified property manager, and has the assistance of qualified consultants with a history of successfully working with similar joint venture partners to house the target population.

The developer and its affiliate organizations will be evaluated both for their ability to successfully develop and manage the real estate component of the project, and for their ability to partner with a service provider or lead service provider to deliver high-quality services to the target population.

The ultimate borrower must be either:

- a limited partnership (LP) (the managing general partner of the LP must be a 501(c)(3) corporation or a limited liability company (LLC) whose sole member is a 501(c)(3) corporation),
- a 501(c)(3) corporation,
- a LLC whose sole member is a 501(c)(3) corporation,
- a county mental health department,
- a local housing authority, or
- an affiliate of the county mental health department created to hold properties financed with MHSA funding.

The borrower also must be organized as either a single asset entity (in the case of a LP), or as a separate legal entity that only holds properties that have MHSA funding, as appropriate.

2.5 Funding Limits

Funding available under the MHSA Housing Program will be subject to two separate limits—an overall county limit and a per-project limit. It should be noted that the manner in which these funding limits will be applied for small counties whose funds are included in the eight percent set-aside are still under development.

County Limits

DMH will apportion a specific amount of MHSA capital (loan) and operating subsidy funds to each county on a five-year basis. Thus, the total amount of all loans and operating subsidy awards made under the program in a given county will be limited to the allotted amount provided to that county over the first five years of the program under the DMH formula. The county may use other funding sources for this program in addition to their allotted MHSA Housing Program funds. While CalHFA will hold the MHSA

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Housing Program funds until they are distributed in the form of capital funds or operating subsidies, they will be awarded based strictly on the amounts apportioned to each county by DMH.

Project Limits

Funding will also be subject to a per-project limit, for both capital costs and operating subsidies. These funds will be made available based on the number of units restricted to the target population, not on the total number of units in the proposed project.

A county may apply for up to one-third of the capital costs of the MHSA restricted units in a Rental Housing Development (projects with five or more units) to a maximum of \$100,000 per restricted unit. At a county's request, amounts greater than \$100,000, up to one-third of total development costs per restricted unit, will be considered on an exception basis. A minimum two-thirds match is required for all MHSA restricted units in such developments. Matching funds may be obtained from such sources as grants, tax credits, other deferred, forgivable or residual receipts loans from governmental and private loan sources, and other county mental health funds. This program has been designed to allow projects to be fully funded without reliance on local capital funding sources. It is anticipated that the two-thirds match can generally be met with a combination of Proposition 1C bond funds and 4 percent tax credits, or with only 9 percent tax credits. In smaller counties, the match may be met with HCD-administered HOME funds. In the largest counties, where costs have historically been much higher, local funds are usually available to fill extraordinary funding gaps. The new MHSA Housing Program funds will facilitate successful applications even if local capital funding is very limited or unavailable. This program will eliminate the pressure on developers to patch together the missing one-third of project costs from multiple smaller funding sources.

No match will be required for Shared Housing Developments provided that the capital costs are at or below \$100,000 per bedroom and each bedroom is restricted to an adult tenant who is a member of the target population. The loan term for capital funds awarded under this program will be 20 years. However, the term may be extended if required by other funding sources.

Operating subsidy funds may be provided to those developments that receive capital funds from the MHSA Housing Program, require operating subsidies to cover their operating costs, and have applied for but have been denied subsidies from all other available sources, including Section 8 and Shelter Plus Care. Priority in allocating operating subsidies will be given to Rental Housing Developments.

Operating subsidies are available for up to 20 years. A county may apply for an operating subsidy for the project. The amount of operating subsidy will be determined by CalHFA based on the development's first-year operating budget, a four percent annual cost escalator, and the amount of interest earned on the operating reserve account. Operating subsidies will be kept in reserve in an interest-bearing account and will be distributed quarterly to borrowers by CalHFA. Subsidies will be used solely to cover the operating costs of the MHSA restricted units. Operating subsidy payments will be reconciled annually with actual operating costs. MHSA operating subsidy funds will not be the property of the development until they have been disbursed. Unused subsidy reserves will be recaptured for other MHSA Housing Program developments.

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2.6 Services and Asset Management

All applications must include a supportive services plan and budget that meets MHSA requirements and is approved by DMH. The plan must describe each service to be provided and the service delivery system that will be in place. Further, CalHFA will require that the borrower have a commitment for service funding from the County Mental Health Department before any funds are distributed.

The supportive services plan must include the following information:

- How the services have been designed to meet the specific needs of the target population
- How the services offered support wellness, recovery and resiliency
- How the services will assist the tenant in obtaining or maintaining benefits to which they are, or may be, entitled, such as cash assistance and medical benefits
- Whether services will be delivered on-site or at other locations in the community
- Frequency of contact between supportive services staff and MHSA tenants
- Staffing levels
- Daily or weekly schedule for making services available to tenants
- Process for assessing the supportive service needs of tenants
- Procedures for ongoing communication between the property management and supportive services staff to assist tenants in maintaining housing stability
- Strategies for engaging tenants in supportive services and in community life
- Plan for helping tenants maintain their housing and achieve self-sufficiency, including employment services, budgeting and financial training, educational opportunities, and other community services that will be made available to tenants

The borrower will be required to arrange for the provision of supportive services for the term of the MHSA loan. All projects must have identified a qualified service provider who will provide supportive services to the tenants. If there are multiple service providers, the application must identify a primary service provider for the project.

The borrower must also provide a clearly articulated property management plan. Each project must provide a written Memorandum of Understanding between the borrower, the primary service provider and the property management agent documenting the procedures for ongoing communication and decision-making between the property management agent and the supportive services provider.

2.7 Project Oversight

CalHFA will be responsible for ongoing oversight of the “housing aspects” of the project during the 20-year loan term. DMH and the County Mental Health Departments will be responsible for ensuring appropriate oversight and monitoring to ensure that the target population is being served and that supportive services are appropriate, in terms of type, quantity and quality. DMH and CalHFA intend to adapt the current CalHFA Annual Self-Certification form for use in the MHSA Housing Program, and projects will be required to complete and submit this form to both agencies on an annual basis.

2.8 Reporting

Outcomes reporting will be required for all MHSA Housing Program tenants. For Full-Service Partnership tenants, reporting requirements will be consistent with those

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established by DMH for individuals enrolled in the CSS category of FSP. For tenants not enrolled in a FSP, the outcomes reporting mechanism is still under development.

All developments will be required to submit quarterly financial reports to CalHFA. However, this requirement may be waived or more frequent reporting may be required at CalHFA's discretion. All developments will also be required to submit annual financial audits prepared by a certified public accountant.

2.9 Regulatory Agreement and Term Sheet

A Regulatory Agreement will be placed on the project for the term of the loan. The Annual Self-Certification form (see Section 2.7) will be appended to the Regulatory Agreement. See the attached MHSA Housing Program Term Sheet, which describes loan requirements, rates, etc.

2.10 Predevelopment Loans

Predevelopment loans will be available to all developments that have received a loan commitment for MHSA capital funds and can demonstrate site control and evidence of appropriate zoning. The loan limit for Rental Housing Developments is \$500,000, while the loan limit for Shared Housing Developments is \$200,000.

2.11 Small Counties

Separate, more flexible program requirements will be developed for small counties to address their unique needs. Small counties will have the option of meeting either these more flexible requirements or the requirements of the primary program described above. Contiguous small counties may combine their funds to develop larger projects that meet regional needs.

3.0 Program Implementation and Evaluation

An Implementation Working Group will be established to provide input and guidance on implementation of the MHSA Housing Program, evaluate the program on an ongoing basis to identify strengths and weaknesses, and make suggestions for change to DMH and CalHFA, with the goal of ensuring that the program continues to meet the goals of the Governor's Executive Order.

As a part of its responsibilities, the Working Group will serve as a forum where counties facing unique situations not addressed in the program requirements may request exceptions to those requirements for specific projects. This exception process will also assist the Working Group and the agencies administering the program in their ongoing program evaluation efforts, by identifying issues or problems that might best be addressed through program changes.